



**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Farmers Mutual Insurance Company of Warren County for the period ended December 31, 2015

ORDER

After full consideration and review of the report of the financial examination of Farmers Mutual Insurance Company of Warren County for the period ended December 31, 2015, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 380.491, RSMo, adopt such report. The findings and conclusions of the report are incorporated by reference herein and are deemed to be my findings and conclusions.

Based on such findings and conclusions, I hereby ORDER Farmers Mutual Insurance Company of Warren County to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed in such report: (1) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions; and (2) submit a signed copy of the minutes of the meeting which reflect a corporate resolution to the effect the Examination Report has been reviewed and accepted.

So ordered, signed and official seal affixed this 17th day of April, 2017.



Chlora Lindley-Myers

Chlora Lindley-Myers, Director
Department of Insurance, Financial Institutions
and Professional Registration

**REPORT OF THE
FINANCIAL EXAMINATION OF**

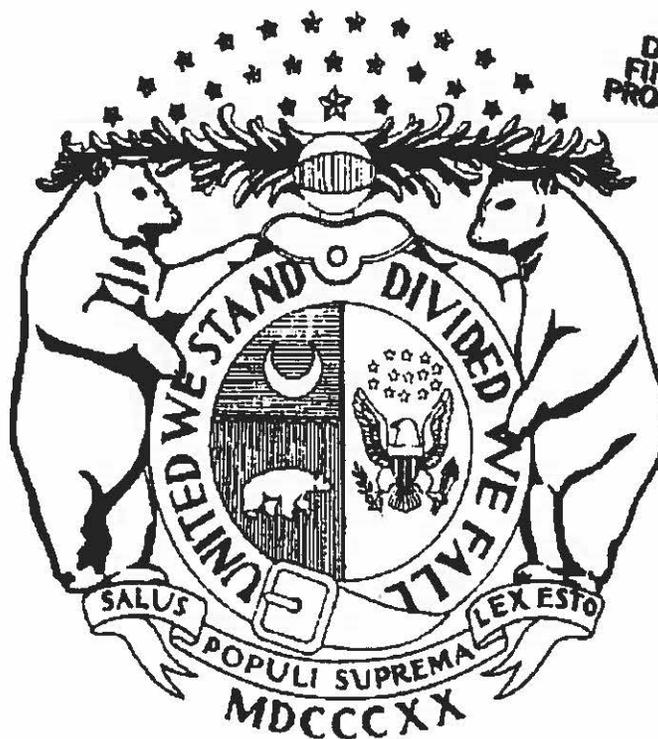
Farmers Mutual Insurance Company of Warren County

**AS OF
DECEMBER 31, 2015**

FILED

APR 17 2017

**DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION**



STATE OF MISSOURI

**DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION**

JEFFERSON CITY, MISSOURI

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December 14, 2016
Warrenton, Missouri

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Sir:

In accordance with your examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

Farmers Mutual Insurance Company of Warren County

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 100 East Booneslick Rd., Warrenton, Missouri 63383, telephone number (636) 456-3629. This examination began on October 24, 2016, and concluded on the date above.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2010, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2011, through December 31, 2015, and was conducted by examiners from the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP).

This examination also included material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth by the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the DIFP and statutes of the State of Missouri prevailed.

Comments Previous Examination Report

There were no comments, recommendations or notes in the previous examination report.

HISTORY

General

The Company was organized on April 24, 1875, as the Private Benevolent Association No. 2 of Warren County. In 1890, the Company reorganized and changed its name to Farmers Mutual Fire Insurance Company of Warren County, Missouri. On September 7, 1939, the Company reorganized and received a Certificate of Incorporation from the Missouri Secretary of State.

The Company has participated in several mergers over the years. The first of the mergers occurred in October 1973, when Femme-Osage Mutual and New Hope Mutual Fire Insurance Company merged with the Company. In November 1977, the Holstein Private Benevolent Association merged with the Company and subsequently, in May 1978, the New Melle-Weldon Springs Company merged with the Company. On December 31, 2001 the Benevolent Association Mutual Insurance Company of Rhineland, Missouri merged with the Company.

On April 9, 1990, the Company amended its Articles of Incorporation to change to an Extended Missouri Mutual Company (Sections 380.201 through 380.591 RSMo). At that time, the Company received a Certificate of Authority from the Missouri Division of Insurance.

Management

The Company is managed by a board of nine directors serving staggered, three-year terms. Directors are elected at annual member meetings held on the third Thursday of February. Special meetings of the members may be called at any time by the Board or upon petition of one-fourth of the members. A person must have a policy with the Company in order to be a member. Eight members constitute a quorum at annual meetings and proxy voting is permitted. The President receives \$150 and all other Directors receive \$100 as compensation for attending meetings. Board meetings are held on a monthly basis.

Members serving on the Board of Directors as of December 31, 2015, were as follows:

<u>Name / Address</u>	<u>Occupation</u>	<u>Term</u>
Bruce Groeper 16997 Highway M Warrenton, MO 63383	Retired	2014-2017
Wendell Massmann 581 Foristell Road Wentzville, MO 63385	Farmer	2014-2017
Robert Nieder 16470 Garden Drive Marthasville, MO 63357	Retired	2015-2017

Gerald Schulze 35239 Schulze Road Warrenton, MO 63383	Farmer	2015-2018
Glenn Ridder 16777 Ridder Road Marthasville, MO 63357	Farmer	2015-2018
Howard Lauer 168 Leech Branch Road Rhineland, MO 65069	Farmer	2015-2018
Paul Krieg 311 Evergreen Court Troy, MO 63379	Retired	2013-2016
Norbert Struckhoff 401 Nona Heights Augusta, MO 63332	Farmer	2013-2016
Severian Elsenraat 207 Bluff Street Rhineland, MO 65069	Farmer	2013-2016

The Board of Directors appoints for a term of one year, the officers of the Company. The officers of the Company serving at December 31, 2015 were as follows:

Norbert Struckhoff	President
Gerald Schulze	Vice-President
Randy Tiefenthaler	Secretary-Treasurer

Conflict of Interest

The Company has written conflict of interest procedures for the disclosure of material conflicts of interest or affiliations by its directors and officers. The Company has its directors and officers sign conflict of interest statements on an annual basis, and no potential material conflicts were disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. No amendments were made to the Articles of Incorporation or the Bylaws during the examination period. The minutes of the membership and the Board of Directors' meetings were reviewed for the

period under examination. The minutes and records of the Company appear to properly reflect corporate transactions and events.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond providing a limit of liability of \$100,000. This coverage exceeds the \$25,000 minimum coverage suggested in the guidelines promulgated by the NAIC. The bond is underwritten by Travelers Insurance Company.

The Company carries directors' and officers' liability coverage through MAMIC Insurance Company (MAMIC) with a limit of liability of \$2,000,000 per claim and aggregate.

Each of the Company's agents are required to carry errors and omissions liability coverage. The policies have various limits of liability, \$300,000 is the minimum amount of coverage.

The Company has a property insurance policy written by Grinnell Mutual Reinsurance Company, or as "Grinnell". The insurance limit in 2015 was \$212,884.

The Company has a commercial general liability policy with Grinnell. The policy limit of liability is \$1 million in aggregate.

The Company has a workers compensation and employers liability policy with MAMIC. The employer's liability insurance has a limit of liability for bodily injury by accident of \$100,000 each accident and limits of liability for bodily injury by disease of \$100,000 per employee and a policy limit of \$500,000.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has five full-time employees and two part-time employees. Employees receive life, health, and dental insurance benefits. The Company provides full-time employees with paid holidays and six paid sick days annually, as well as vacation time based on employment tenure. A deferred compensation plan is also offered whereby the Company will matches up to 3% of employee contributions per year.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed by the Missouri DIFP as an Extended Missouri Mutual Insurance Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company is authorized to write fire, wind, and liability insurance in all Missouri counties, although the majority of the Company's business is concentrated in Warren and the immediate surrounding counties. The Company has traditionally sold homeowners, fire, farm property, commercial property, and liability insurance policies. Insurance is provided on a non-assessable basis. The Company advertises through newspaper and radio advertisements, community involvement, and with other promotional items such as pens, caps, and calendars. The Company also has a web site at www.fmiwc.com.

Policy Forms and Underwriting Practices

The Company writes one-year renewable policies. Policy rates are approved by the Board of Directors based on internal recommendations. The Company primarily uses forms from the American Association of Insurance Services (AAIS) supplemented with forms from Grinnell and MAMIC. Insurance products are sold by five independent agencies. The agents receive a 20% commission on new business and a 12% commission on renewal business. An onsite inspection is made by the Company's inspector prior to the issuance of policies. Renewals are inspected every third year. The Company contracts with Grinnell to adjust claims.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Assessments</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2015	\$7,448,819	\$1,191,714	\$ 2,743,302	\$2,078,134	\$ 238,968	\$ (765,745)	\$(521,532)
2014	7,875,795	1,097,158	2,331,682	1,273,463	241,037	(295,922)	(3,004)
2013	7,811,750	1,030,109	2,022,049	549,853	245,445	328,180	522,127
2012	7,083,676	824,162	1,846,273	1,332,324	253,645	(333,208)	(79,379)
2011	6,977,955	639,062	1,566,511	2,044,125	255,087	(221,255)	82,285

At year-end 2015 3,306 policies were in force.

REINSURANCE

General

The Company's reinsurance premium activity on a direct-written, assumed, and ceded basis for the period under examination is shown below:

	2011	2012	2013	2014	2015
Direct	\$1,566,511	\$1,846,273	\$2,022,049	\$2,331,682	\$2,743,302
Assumed	6,765	6,718	6,971	7,500	7,026
Ceded	(399,532)	(483,025)	(620,949)	(737,158)	(912,498)
Net	<u>\$1,173,744</u>	<u>\$1,369,966</u>	<u>\$1,408,071</u>	<u>\$1,602,024</u>	<u>\$1,837,830</u>

Assumed

The Company participates in a reinsurance pool with MAMIC. The pool covers errors and omissions policies and directors' and officers' liability policies written by MAMIC. MAMIC cedes 95% of the first \$2,000,000 each claim and in aggregate on all insurance producers' errors and omissions insurance. It also cedes 95% of the first \$3,000,000 each claim and in aggregate on all directors' and officers' liability policies to the pool. MAMIC receives a 35% ceding commission of net written premium ceded to the pool. The Company has a 2% share in the interests and liabilities of the pool.

Ceded

The Company is party to a reinsurance agreement with Grinnell. The following coverage is provided under this agreement.

Individual Occurrence of Loss Excess

The Company retains the first \$200,000 of fire or wind losses, each risk, and each occurrence. Grinnell is liable for 100% of losses above the retention. The premium for this coverage is charged at a monthly rate based on the adjusted gross fire and wind risk in force per \$1,000 at the end of each month during the contract year. The fire component of the premium is also subject to an experience rating adjustment based on the loss ratio for the most recent five-year period.

Aggregate Excess of Loss

This provides unlimited aggregate excess coverage above an attachment point that is calculated yearly. The attachment point for the 2015 contract year was \$1,865,982. The premium for this coverage is charged at a monthly rate based on the adjusted gross fire and wind risk in force per \$1,000 at the end of each month during the contract year.

Facultative Reinsurance

The Company has the option to cede all or part of each specific risk to Grinnell by means of facultative reinsurance. Rates are determined by the reinsurer on a case-by-case basis, and the reinsurer determines which risks are acceptable for facultative coverage. The Company's larger risks (in excess of \$20,000,000) are covered through facultative agreements.

Liability Reinsurance

The Company cedes all liability premiums to Grinnell, who in turn pays all liability losses. The Company receives a ceding commission equal to 20% of the subject net written premiums.

The Company's reinsurance program appears to be adequate.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

ACCOUNTS AND RECORDS

The Company maintains its accounting on an accrual basis. Accounting records for premiums, claims, and financial reporting are maintained in the IMT software system. MIPS is used for their policy administration system. The CPA firm of Tochtrop and Association prepares financial statements and tax returns and compiles the Company's Annual Statement.

FINANCIAL STATEMENTS

The following financial statements as filed by the Company with DIFP, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2015, and for the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Comments on the Financial Statements," which follow the Financial Statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Comments on the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the work papers for each individual annual statement item.

ANALYSIS OF ASSETS
December 31, 2015

Bonds	\$ 6,051,293
Real Estate	65,715
Cash on Deposit	1,124,859
Other Investments	44,182
Reinsurance Recoverable	87,109
Computer Equipment	1,055
Federal Income Tax Recoverable	15,000
Interest Due & Accrued	57,031
Prepaid Insurance	2,575
Total Assets	<u>\$ 7,448,819</u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2015

Losses Unpaid	\$ -
Ceded Reinsurance Payable	76,203
Unearned Premium	1,110,013
Payroll Tax	5,498
Total Liabilities	<u>\$ 1,191,714</u>
Guaranty Fund	\$ 150,000
Other Surplus	6,107,105
Total Surplus	<u>\$ 6,257,105</u>
Total Liabilities and Surplus	<u>\$ 7,448,819</u>

STATEMENT OF INCOME
For the Year Ending December 31, 2015

Net Premiums Earned	\$ 1,664,047
Other Insurance Income	100,610
Net Losses & Loss Adjustment Expenses Incurred	(1,891,649)
Other Underwriting Expenses Incurred	(638,753)
Net Underwriting Income (Loss)	<u>\$ (765,745)</u>
Investment Income	\$ 239,071
Other Income	5,245
Gross Profit (Loss)	<u>\$ (521,532)</u>
Federal Income Tax	-
Net Income (Loss)	<u><u>\$ (521,532)</u></u>

CAPITAL AND SURPLUS ACCOUNT
December 31, 2015

Policyholders' Surplus, December 31, 2014	\$ 6,778,637
Net Income (Loss)	(521,532)
Change in Unrealized Gain/Loss on Securities	-
Policyholders' Surplus, December 31, 2015	<u><u>\$ 6,257,105</u></u>

COMMENTS ON THE FINANCIAL STATEMENTS

There were no notes to the financial statements.

EXAMINATION CHANGES

There were no examination changes.

GENERAL COMMENTS AND RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None.

